Strategic Energy®

CONNECTICUT GENERAL ASSEMBLY
ENERGY AND TECHNOLOGY COMMITTEE PUBLIC HEARING
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WRITTEN TESTIMONY OF MARC HANKS OF STRATEGIC ENERGY

Good afternoon. My name is Marc Hanks and I am the Director of Market Development for Strategic Energy, L.L.C. ("Strategic"), which is a national retail electricity supplier to commercial and industrial customers, serving more than 42,000 customer accounts in states that have enacted retail choice throughout the United States. Strategic is a relatively new entrant to the competitive electricity market in Connecticut. However, we look forward to the continuation of providing innovative pricing products and related energy services to the commercial and industrial market segment in the state.

Strategic Energy supports the intended goal of HB No. 5819 of placing downward pressure on retail electricity prices for the benefit Connecticut residents and businesses, but not in the manner that is proposed in the bill. Strategic believes that competitive market forces and the ability of residential and business energy consumers to choose alternative electric commodity supply provides the best solution for competitive pricing, flexible terms of service and other value-added product and services, like green power, demand response and energy efficiency. Moreover, Strategic cautions that a Connecticut Energy Authority, charged with the procurement of generation supply and development and management of new generation facilities would place exorbitant new costs on Connecticut taxpayers. One need only examine the experiences from other states to realize that a proposed Connecticut Power Authority will not provide lower cost power for Connecticut electricity consumers.

What can be learned from the experiences of other state power authorities?

1.) The New York Power Authority and the regional governmental power authorities (e.g., Bonneville Power Authority) were established to sell inexpensive hydropower from federally subsidized generation facilities. Despite access to huge amounts of inexpensive Niagara hydropower, in 2006 NYPA incurred $2.5 billion of total operating expenses, of which $0.4 billion were operations and maintenance expenses. The magnitude of the operating expenses resulting from operating a power authority is instructive.

2.) The Long Island Power Authority (LIPA) in New York arose out of the bankruptcy of the Long Island Lighting Company (LILCO). LIPA is a state-owned utility with an extensive transmission and distribution system and a discrete service area. While LILCO/LIPA has a unique history and its experience is generally not comparable with Connecticut's situation, it does offer one example of how administrative decisions can lead to unintended and potentially catastrophic results for taxpayers. Based on a 1968 cost estimate of $350 million, an administrative decision was made to construct the Shoram nuclear facility on Long Island in the 1970s. The plant was built, but before it produced a single kilowatt-hour, it was shut down, never to run. LILCO was forced into bankruptcy and the plant was sold to New York State for $1 in 1989 after at least $5.4 billion in costs were accumulated. LIPA customers were forced to pay the more than $5 billion in construction costs.

3.) The most relevant power authority experience that Connecticut can look to is that of the California Department of Water Resources (CADWR). At the height of the California energy crisis, CADWR was given authority to enter into many long-term contracts to secure supply for California ratepayers. CADWR did so at prices that were estimated to be double the market prices existing two years later. Once those contracts were signed, customers were saddled with those high rates and were prevented from shopping for cheaper alternatives that materialized soon after.

A key lesson of these examples is that it is impossible for any administrative determination to construct generation on a schedule to match consumer demands for electricity, one of the alleged advantages of a power authority. The potentially enormous risk of overbuild will be borne by all consumers. Administrative determinations around utility-built generation is equally daunting, for example:

- In Michigan, local utility Consumers Power built the Midland plant, initially projected to cost $276 million; construction stopped after $4.2 billion was spent – later the plant was converted to natural gas at an additional cost of $600 million.
- In New York, the Nine Mile 2 plant – which was built by a consortium of New York utilities – was initially projected to cost $400 million, but wound up costing $5.4 billion of which ratepayers absorbed $4.4 billion.

Whether generation is built by utilities or by a state-sponsored power authority such as that envisioned in HB No. 5819, consumers bear all the investment risk, risk that is currently borne by private investors. Moreover, the involvement of a power authority in building or contracting new generation will drive private investment in competitive generation out of the market over time, and thus, the downward pressure on prices from competing generation suppliers will be lost.

Lastly, Strategic would caution against any entity entering into long-term contracts for Standard or Default Service customers as it may put customers at significant risk by "locking-in" power at prices that may be at their apex at the time of procurement. Consequently, electricity customers in Connecticut may have price stability but at a high cost relative to prevailing market prices. Should customers desire a long-term contract, the competitive market stands ready to offer this product and others. Furthermore, Strategic thinks that locking-in long-term power contracts and using those contracts to serve Standard Service customers would effectively remove the critical price signals that customers could use to make effective decisions regarding energy efficiency and demand response measures to reduce their overall energy costs. The reduction of energy consumption and demand is an important public policy objective that will enhance system reliability in Connecticut and New England as a whole.

On behalf of Strategic Energy, I thank you for allowing us to share our concerns on HB No. 1519 with the Committee and we urge the Committee to give the bill an unfavorable report.

Submitted by:

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